

NARRATIVE BUDGET
REPORT PART I –
SPECIAL AND UTILITY
ENTERPRISE FUNDS
FISCAL YEAR 2009-10

PURPOSE OF STUDY SESSION

- Provide updated financial information regarding special and utility enterprise funds
- Review budget recommendations for FY 2009-10
- Review recommended utility rate adjustments
- Identify topics needing further review/information

FISCAL YEAR 2009-10 BUDGET PROCESS/SCHEDULE

- ✓ January 27: FY09-19 Long-Range Financial Forecast and Economic Development Strategy Update
- ✓ February 10: First CDBG Public Hearing
- ✓ February 17: FY09-10 General Operating Fund Budget Background Study Session
- ✓ February 24: Mid-Year Budget Status Report
- ✓ March 9: Council Goals Setting Workshop - Part I
- ✓ March 31: Council Goals Setting Workshop - Part II
- April 7: General Operating Fund Budget Balancing Strategy Study Session and Narrative Budget Report Part I - Special and Utility Funds

FISCAL YEAR 2009-10 BUDGET PROCESS/SCHEDULE

- April 14: First Capital Improvement Program Study Session
- April 28: Second CDBG Public Hearing
- May 5: Narrative Budget Report Part II - General Fund and Second Capital Improvement Program Study Session (tentative)
- May 26: Annual Goals Adoption and Capital Improvement Program Adoption (tentative)
- June 2: Budget Public Hearing
- June 9: Utility Rates and Budget Public Hearings/Budget Adoption

SPECIAL FUNDS THEMES/ISSUES

- Revitalization Authority Fund – Good financial condition; Able to meet its current financial obligations; Revenue growth from new development and property sales; Projected decline in unsecured and supplemental property taxes due to economic conditions; Operations cease in April 2011, requiring plan; Authority expires April 2019; Housing set-aside funds used for low-/moderate-income housing
- Shoreline Regional Park (North Bayshore) Community Fund – Stable financial condition; Able to meet its financial obligations; Property taxes lower due to two properties being taken off the tax roll, staff working with County to restore; Projected decline in unsecured and supplemental property taxes due to economic conditions; Financial strategy needed to fund several significant financial obligations; Potential bond issue

UTILITY FUNDS THEMES/ISSUES

- Water Enterprise (Utility) Fund – Wholesale water cost proposed increase 15.7 percent from SFPUC, 6.4 percent and 4.8 percent for wholesale water and well water, respectively from SCVWD; Recycled Water Program beginning in FY09-10; Recommended 5.0 percent rate adjustment
- Wastewater Enterprise (Utility) Fund – Rate restructuring strategy successful; Sewage treatment plant cost increase of 1.7 percent; Blended Water Program being discontinued; Recommended 5.0 percent rate adjustment
- Solid Waste Management (Utility) Fund – Good financial condition; Foothill Disposal adjustment of 4.01 percent; SMaRT Station cost increase of 8.8 percent; Recommended 7.0 percent rate adjustment

SPECIAL FUNDS

REVITALIZATION AUTHORITY ISSUES/RECOMMENDATIONS

- Current Fiscal Year
 - Property taxes higher due to property sales in the Downtown
 - Expenditures on target
- Fiscal Year 2009-10 Projections and Recommendations
 - Property taxes projected lower due to projected decline in unsecured value and property sales
 - No added expenditure recommendations
- Operations cease April 2011; Authority expires April 2019
- Retirees' Health UAAL \$42,000
- Housing set-aside funds to be used for low-/moderate-income housing
 - Recommended increase for position reallocation \$9,500

REVITALIZATION AUTHORITY FUND

	2007-08	2008-09	2008-09	2009-10
	<u>Audited</u>	<u>Adopted</u>	<u>Estimated</u>	<u>Recom'd</u>
Revenues	\$ 4,429	4,498	5,158	4,883
Expenditures	<u>(3,163)</u>	<u>(3,210)</u>	<u>(3,247)</u>	<u>(3,217)</u>
Operating Balance	1,266	1,288	1,911	1,666
Loan Repayment	6	1	1	-0-
ERAF	-0-	-0-	(345)	-0-
Retirees' Health UAAL	-0-	(68)	(68)	(42)
Capital Projects	<u>(110)</u>	<u>(225)</u>	<u>(225)</u>	<u>-0-</u>
Excess (Deficiency)	1,162	996	1,274	1,624
Beginning Balance	3,481	4,643	4,643	5,917
Bond Proceeds	<u>(53)</u>	<u>(53)</u>	<u>(93)</u>	<u>(111)</u>
Ending Balance	\$ <u>4,590</u>	<u>5,586</u>	<u>5,824</u>	<u>7,430</u>

(Dollars in thousands)

REVITALIZATION HOUSING SET ASIDE FUND

	2007-08	2008-09	2008-09	2009-10
	<u>Audited</u>	<u>Adopted</u>	<u>Estimated</u>	<u>Recom'd</u>
Revenues	\$ 1,263	1,195	1,367	1,292
Expenditures	<u>(883)</u>	<u>(833)</u>	<u>(853)</u>	<u>(725)</u>
Operating Balance	380	362	514	567
Retirees' Health UAAL	<u>-0-</u>	<u>(56)</u>	<u>(56)</u>	<u>(2)</u>
Excess (Deficiency)	380	306	458	565
Beginning Balance	<u>9,544</u>	<u>9,924</u>	<u>9,924</u>	<u>10,382</u>
Ending Balance	\$ <u>9,924</u>	<u>10,230</u>	<u>10,382</u>	<u>10,947</u>

(Dollars in thousands)

SHORELINE REGIONAL PARK (NORTH BAYSHORE) COMMUNITY ISSUES/RECOMMENDATIONS

- Current Fiscal Year
 - Property taxes lower than budget due to 2 properties removed from the tax roll, staff working with County to restore
 - Expenditures on target
- Fiscal Year 2009-10 Projections and Recommendations
 - Property taxes declining due to economic conditions
 - Position reallocations \$113,200
 - Contract landscape maintenance \$12,200
 - Utilities cost increases \$8,500
- Capital Improvement Projects \$ 2,981,000
- Retirees' Health UAAL \$578,000
- Careful planning of resources needed to fund all current and planned commitments

SHORELINE REGIONAL PARK (NORTH BAYSHORE) COMMUNITY FUND

	2007-08	2008-09	2008-09	2009-10
	<u>Audited</u>	<u>Adopted</u>	<u>Estimated</u>	<u>Recom'd</u>
Revenues	\$27,627	26,025	24,928	25,242
Expenditures	(17,827)	(18,792)	(18,551)	(18,768)
Operating Balance	9,800	7,233	6,377	6,474
General Plan Update	-0-	(1,064)	(1,064)	-0-
Transfer In	2,000	-0-	-0-	-0-
Retirees' Health UAAL	-0-	(1,213)	(1,213)	(578)
Capital Projects	(9,292)	(11,775)	(12,075)	(2,981)
Excess (Deficiency)	2,508	(6,819)	(7,975)	2,915
Beginning Balance	<u>19,425</u>	<u>21,933</u>	<u>21,933</u>	<u>13,958</u>
Ending Balance	\$21,933	15,114	13,958	16,873

(Dollars in thousands)

UTILITY FUNDS

PROP 218 PROCESS

- California Supreme Court decision - utility rates considered property-related fees and charges
- Requires agencies to hold a majority protest hearing prior to adopting changes in utility rates
- Requires a notice of the hearing be mailed no later than 45 days prior to the hearing
- The notice must include the proposed rate adjustment, calculation methodology, and the process for submitting a protest vote
- 17,000 notices will be mailed on or before April 24th for June 9th public hearing
- If a majority protest is received, the proposed rate increases fail and cannot be approved (approximately 8,500 protests would be required)
- Can include ability for future CPI and pass through rate adjustments for four years

WATER FUND

ISSUES/RECOMMENDATIONS

- Current Fiscal Year
 - Revenues on target - water sales lower, interest earning higher
 - Expenditures below budget - lower water purchases, salary savings
 - City's Master Water Agreement with the SFPUC expires June 30,2009
- 5.0 percent rate increase recommended
 - 15.7 percent SFPUC wholesale water cost increase
 - 6.4 percent and 4.8 percent increase for wholesale water and well water, respectively, from SCVWD
 - Recycled Water Program implementation

WATER FUND

ISSUES/RECOMMENDATIONS (cont.)

- Fiscal Year 2009-10 Projections and Recommendations
 - Recycled water loan payment \$300,000
 - Water conservation Project Manager position \$155,000
 - Water conservation hourly assistance \$60,000
 - Recycled Water Program materials and supplies \$26,000
 - Position reduction (\$15,700)
 - BAWSCA Membership Dues \$13,250
 - PG&E and refuse disposal costs \$12,500
 - Computer hardware/software maintenance \$5,000
 - Capital Outlay \$31,000
- Capital Improvement Projects \$3,554,000
- Retirees' Health UAAL \$1,213,000

WATER FUND

(Dollars in thousands)

	2007-08 <u>Audited</u>	2008-09 <u>Adopted</u>	2008-09 <u>Estimated</u>	2009-10 <u>Recom'd</u>
Revenues	\$ 19,681	19,774	19,774	20,665
Expenditures	(15,248)	(16,843)	(15,881)	(18,332)
Base Level CIPs	<u>(1,352)</u>	<u>(1,377)</u>	<u>(1,377)</u>	<u>(1,753)</u>
Operating Balance	3,081	1,554	2,516	580
Retirees' Health UAAL	(433)	(396)	(396)	(1,213)
Additional CIPs	<u>(1,788)</u>	<u>(418)</u>	<u>(418)</u>	<u>(1,801)</u>
Excess (Deficiency)	860	740	1,702	(2,434)
Beginning Balance	7,938	8,798	8,798	10,500
Reserves	<u>(5,213)</u>	<u>(5,431)</u>	<u>(5,431)</u>	<u>(6,177)</u>
Ending Balance	\$ 3,585	4,107	5,069	1,889

WASTEWATER FUND

ISSUES/RECOMMENDATIONS

- Imbalance of ongoing revenues and expenditures from FY2000-01 successfully corrected over prior 3 years with rate restructuring
- Current Fiscal Year
 - Revenues slightly lower - service charges slightly lower
 - Expenditures below budget - salary savings, treatment cost credit
- 5.0 percent rate increase recommended
 - 1.7 percent PARWQCP treatment cost increase
 - Blended Water Program being discontinued
- Fiscal Year 2009-10 Projections and Recommendations
 - Position reallocations \$29,400
 - Position reduction (\$15,700)
- Capital Improvement Projects \$1,799,000
- Retirees' Health UAAL \$180,000

WASTEWATER FUND

(Dollars in thousands)

	2007-08 <u>Audited</u>	2008-09 <u>Adopted</u>	2008-09 <u>Estimated</u>	2009-10 <u>Recom'd</u>
Revenues	\$ 14,867	14,972	14,884	14,875
Expenditures	(12,702)	(13,665)	(13,069)	(13,601)
Base Level CIPs	<u>(1,553)</u>	<u>(1,589)</u>	<u>(1,589)</u>	<u>(1,597)</u>
Operating Balance	612	(282)	226	(323)
Retirees' Health UAAL	-0-	(32)	(32)	(180)
Additional CIPs	<u>(157)</u>	<u>59</u>	<u>59</u>	<u>(202)</u>
Excess (Deficiency)	455	(255)	253	(705)
Beginning Balance	8,356	8,811	8,811	9,064
Reserves	<u>(5,984)</u>	<u>(6,048)</u>	<u>(6,048)</u>	<u>(5,846)</u>
Ending Balance	\$ 2,827	2,508	3,016	2,513

SOLID WASTE MANAGEMENT FUND

ISSUES/RECOMMENDATIONS

- Current Fiscal Year
 - Good Financial Condition
 - Revenues below budget - refuse service charges lower
 - Expenditures below budget - salary savings, SMaRT Station credit
- 7.0 percent rate increase recommended
 - Foothill Disposal adjustment 4.01 percent
 - SMaRT Station increase 8.8 percent
- Fiscal Year 2009-10 Projections and Recommendations
 - Transfer Sr Greenskeeper from Golf \$84,000
 - Utilities cost increases \$4,500
- Capital Improvement Projects \$528,000
- Retirees' Health UAAL \$49,000

SOLID WASTE MANAGEMENT FUND

(Dollars in thousands)

	2007-08	2008-09	2008-09	2009-10
	<u>Audited</u>	<u>Adopted</u>	<u>Estimated</u>	<u>Recom'd</u>
City Revenues	\$ 8,885	9,217	8,973	9,872
Foothill Revenues	<u>10,726</u>	<u>11,095</u>	<u>10,914</u>	<u>11,351</u>
Total Revenues	<u>19,611</u>	<u>20,312</u>	<u>19,887</u>	<u>21,223</u>
City Expenditures	8,808	9,233	8,850	9,837
Foothill Payments	<u>10,726</u>	<u>11,095</u>	<u>10,914</u>	<u>11,351</u>
Total Expenditures	<u>19,534</u>	<u>20,328</u>	<u>19,764</u>	<u>21,188</u>
Operating Balance	77	(16)	123	35
Retirees' Health UAAL	-0-	(31)	(31)	(49)
MRF Project	(2,225)	-0-	-0-	-0-
Capital Projects	<u>(25)</u>	<u>(5)</u>	<u>(5)</u>	<u>(528)</u>
Excess (Deficiency)	(2,173)	(52)	87	(542)
Beginning Balance	7,168	4,995	4,995	5,082
Reserves	<u>(2,359)</u>	<u>(2,395)</u>	<u>(2,395)</u>	<u>(2,546)</u>
Ending Balance	\$ 2,636	2,548	2,687	1,994 ₂₁

SUMMARY OF RECOMMENDED UTILITY RATE INCREASES

- Water – Recommended 5.0 percent rate increase
 - \$1.56/month increase for 250 gal/day
- Wastewater – Recommended 5.0 percent rate increase
 - \$1.15/month increase for a single-family residence
- Solid Waste – Recommended 7.0 percent rate increase
 - \$1.15/month increase for one 32-gallon can

UTILITY RATE COMPARISON

SINGLE FAMILY RESIDENTIAL

	<u>Water</u> ²	<u>Sewer</u>	<u>Trash</u> ³
<u>Mountain View</u> ¹			
Current	\$31.18	\$23.05	\$16.40
Recommended	32.74	24.20	17.55
Recommended Increase	5.0%	5.0%	7.0%
<u>Palo Alto</u>			
Current	48.14	23.48	26.58 ⁵
Proposed	49.52	24.65	31.00
Proposed Increase	2.9% ⁴	5.0%	16.6%
<u>Sunnyvale</u>			
Current	26.92	26.02	23.12 ⁵
Proposed	29.35	27.32	24.39
Proposed Increase	9.0%	5.0%	5.5%

1) Cal Water – Current rate \$33.12, proposed rate \$39.28

2) Based on 250 gallons per day

3) Based on one 32 gallon container

4) Average increase 5%

5) Weekly recycling in rate

SPECIAL & UTILITY FUNDS SUMMARY

SPECIAL & UTILITY FUNDS SUMMARY

- Revitalization Authority:
 - Good financial condition
 - Increase in tax increment revenues since FY2002-03, but projected to decline for FY09-10
 - Sufficient financial capacity to support obligations
 - Operations cease April 2011; Authority expires April 2019
 - Planning for expiration of Authority required
 - Housing set-aside funds being used for low-/moderate-income housing

SPECIAL & UTILITY FUNDS

SUMMARY (cont.)

- Shoreline Regional Park (North Bayshore) Community Fund:
 - Property taxes lower due to two properties removed from tax roll – staff is working with County to restore
 - Unsecured and supplemental property taxes projected to decline
 - Able to meet financial obligations
 - Development of financial strategy to meet all current and planned commitments
 - Potential bond issue

SPECIAL & UTILITY FUNDS

SUMMARY (cont.)

- Water Utility Fund:
 - 5.0 percent rate adjustment recommended
 - SFPUC wholesale water rate increase of 15.7 percent
 - Recycled Water Program beginning
- Wastewater Utility Fund:
 - 5.0 percent rate adjustment recommended
 - Blended Water Program being terminated
- Solid Waste Management Utility Fund:
 - 7.0 percent rate adjustment recommended
 - Foothill Disposal contract increase 4.01 percent
 - SMaRT Station increase 8.8 percent
- Some fee increases for CPI/COLA/certain indices

NEXT STEPS

- CIP Study Session – April 14
- Second CDBG Public Hearing – April 28
- Narrative Budget Report – Part II General Fund – May 5
- Second CIP Study Session – May 5 (tentative)
- CIP Adoption – May 26 (tentative)
- Annual Goals Adoption – May 26 (tentative)
- Budget Public Hearing – June 2
- Utility Rate Public Hearing, Budget Public Hearing and Budget Adoption – June 9

FOLLOW-UP

- Additional Information Needed by City Council
- Preparation for next Narrative Report (May 5)
- Preparation for Budget Hearings (June 2 and June 9)